1999 ANNUAL REPORT

CONCERT

Corporate Profile

Concert Industries Ltd. is a leading manufacturer of pulp based air-laid nonwoven fabrics. Our unique advanced technological expertise provides us with the know-how to create innovative materials. Predominately, our products are used to form the absorbent core for personal care applications like feminine hygiene and adult incontinence products. Concert's flexible manufacturing facilities are based on the latest and most evolved air-laid technologies in our industry and are also capable of producing air-laid fabrics applicable as baby wipes, table top products, food pads, and other non-hygienic applications.

In close partnership with our customers, we continue to develop air-laid technology to efficiently produce superior air-laid nonwoven fabrics. This commitment to our customers ensures **Concert will remain a leader in the industry.**

The Air-laid Process

In the air-laid process, wood pulp fibers are dispersed in a moving air-stream and then collected on a forming surface to produce a lofty porous web. The main methods used to bond the web are latex, thermal and multi bonding. The multi bond process combines the latex and thermal bonding methods. To facilitate these processes, we developed and refined our manufacturing know-how based on technologies inherent in the air-laid production lines of the two world leading machine suppliers and patent holders. Our modern production lines are capable of using all bonding methods.

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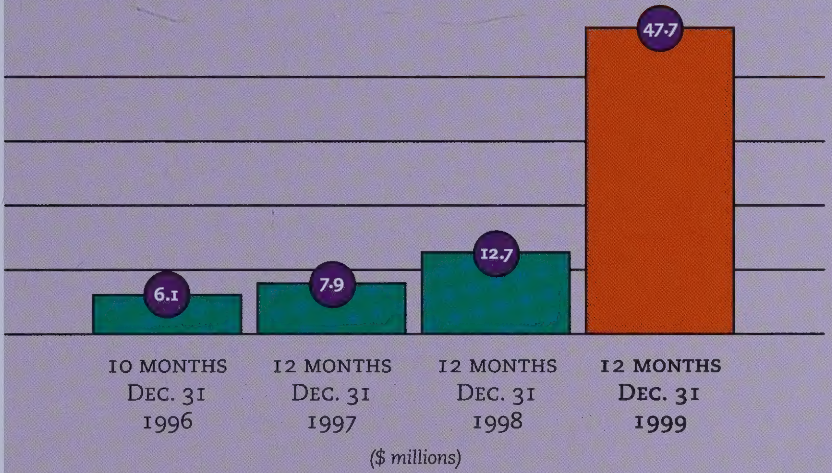
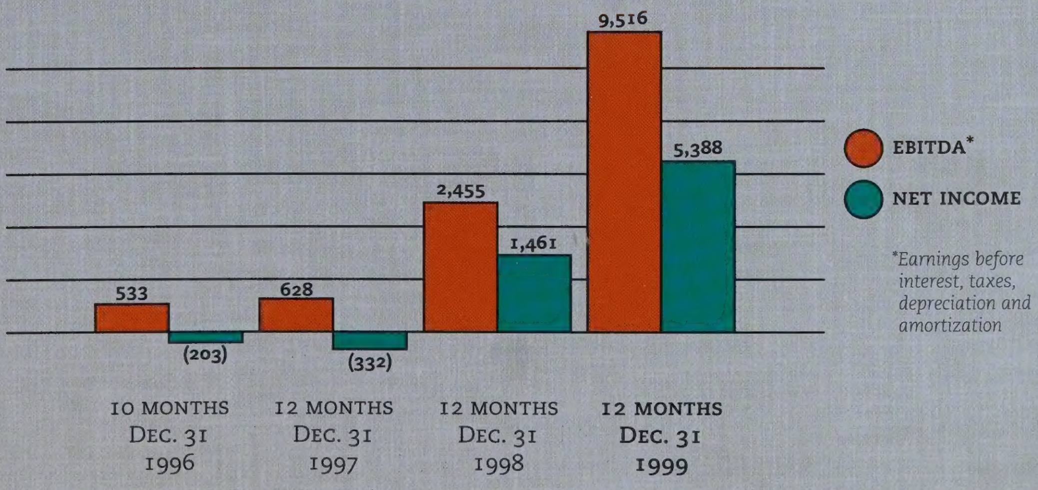
Our Sales continue to Soar



Our Earnings more than Triple



Integrity

To Our Fellow Shareholders

In last year's Annual Report we defined 1999 as *"The Year for Growth"* for Concert Industries Ltd. Now, only in retrospect, can we fully appreciate the magnitude of the growth we have experienced in just one year. With our new manufacturing facility in Gatineau, Québec, Concert will become one of the world's largest manufacturers of air-laid nonwoven fabrics. Moreover, Concert remains as one of the most technologically advanced companies in the industry.

As we look back to 1999, we see:

- a company that built the world's largest production line for air-laid fabrics in record time, on budget and on schedule.
- a company that secured multi-year supply contracts with world leaders in personal care products.
- a company with sales commitments that necessitate the construction of a new plant with two production lines in Gatineau, Quebec.
- a company that secured $127 million in financing – the budgeted cost of the construction of the new plant.
- a company that develops and integrates unique technological advancements.

Ingenuity

- a company that grew in one year from 100 to more than 170 employees providing a talent base needed to produce and deliver superior products.
- a company that will increase its rated production capacity from 17,000 tonnes in 1999 to a rated capacity of 73,000 tonnes by the second quarter of 2001.
- a company that emerged as a leader in an industry experiencing tremendous growth.

Dieter Peter
Chairman & CEO

Carey Edwards

Carey Edwards
Exec. Vice-President & CFO

Innovation

The challenges that face us in the future include the management of our expansion and technological advancement projects. As we look ahead, we see:

- **a challenge to manage and implement the start-up of our expansion projects.**

In Germany, we are meeting this challenge with mature management, experienced operating teams, extensive cross training programs for new operators and large contracted orders. All of these elements combine to ensure a successful start up of Concert's newest, and the world's largest production line in the first quarter of 2000.

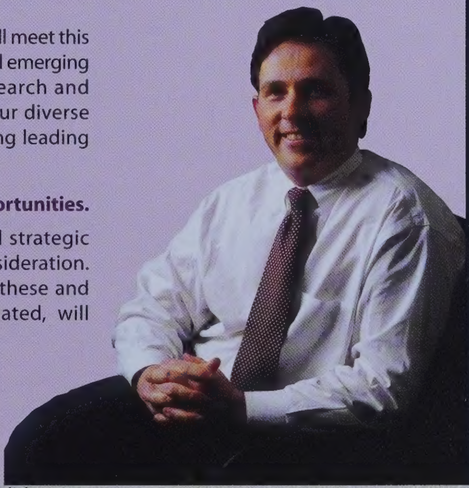
In Canada, we are restructuring and expanding our North American management team to accommodate the new plant. We are selecting the top managerial, operational, engineering and sales staff and providing the same extensive training programs applied in Germany. These efforts will ensure a successful and timely start up of the two new production lines in Canada.

- **a challenge to prepare and execute a global sales, marketing and research & development strategy.**

Our sales team, with the addition of improved sales resources, will meet this challenge and establish wider product distribution in current and emerging market segments. We will increase our investment in research and development by adding new experienced people to join our diverse international team. They will continue to focus on developing leading edge air-laid fabrics to meet our customers' needs.

- **a challenge to evaluate new growth and technological opportunities.**

Growth prospects such as acquisitions, joint ventures, and strategic technical alliances are all opportunities presently under consideration. With our experience in the industry we are confident that these and other opportunities, once thoroughly examined and evaluated, will maintain Concert's growth momentum.



In this year's Annual Report, you will learn the details of our accomplishments in 1999 and our goals for the future. You will learn more about each of our four subsidiary companies Concert Fabrication Ltée., Concert GmbH, AA-Tech Advanced Airlaid Technology Systems GmbH and our newest subsidiary, Concert Airlaid Ltée. We will also provide you with highlighted financial and market analyses.

Beyond these facts and figures, at the heart of our company, lies the integrity, ingenuity and innovation of the people that represent Concert. Concert is fortunate to be in a marketplace that offers many exciting opportunities. Recognizing, creating and implementing these opportunities takes commitment, dedication, knowledge and energy. We would therefore like to thank our employees and consultants for their valuable contributions. On behalf of the Board of Directors, we also take this opportunity to thank our customers, shareholders, business partners, and suppliers for their continued support.

John McNicol
President & COO

We look forward to another remarkable year.

Geographically Situated

Vancouver British Columbia
Corporate Head Office

Gatineau, Québec

Location of Concert's newest 270,000 sq. ft. plant. Completion is scheduled for Q2 2001.

- The new plant will have two production lines with a combined annual capacity of 38,000 tonnes.
- The M&J production line, and the building are owned by Concert Airlaid Ltée.
- A DanWeb production line is owned by Concert Fabrication Ltée.

Thurso, Québec

Concert Fabrication Ltée. operates a DanWeb line with a current annual capicity of 7,000 tonnes.

- We signed long term contracts with two multi-national customers, more than doubling the number of tonnes sold in 1999. As a result, sales climbed to over $24 million.
- We increased our production capacity from 500 to 700 tonnes per month.
- Our net income was $5 million - three times that of 1998.

for Future Growth

Falkenhagen, Germany

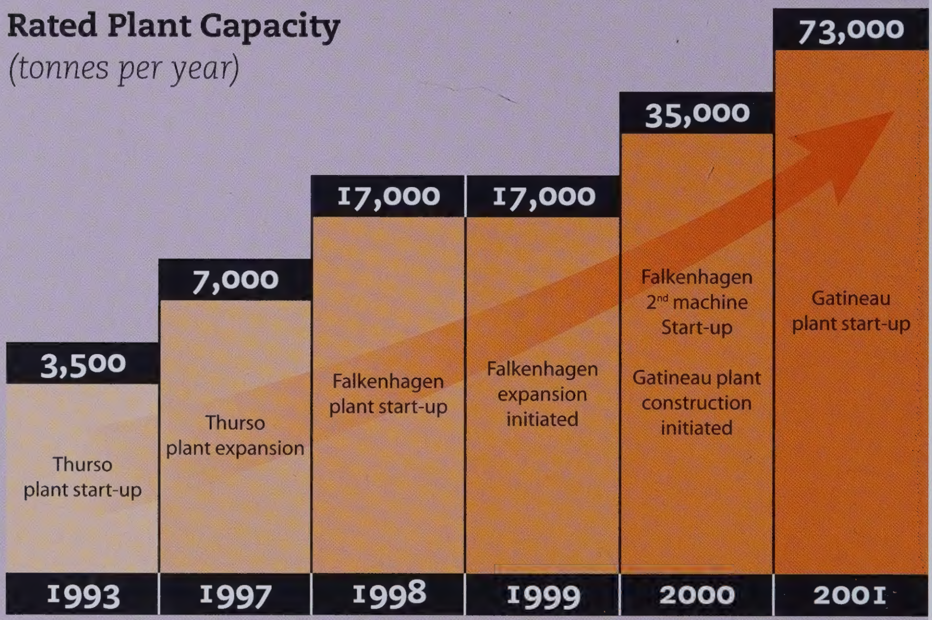
Concert GmbH now operates two production lines having a total annual capacity of 28,000 tonnes.

- We recently expanded our plant and built a second M&J line with an annual capacity of 18,000 tonnes.
- The first line was sold out in the second half of 1999.
- Sales more than tripled in 1999.

Falkenhagen, Germany

AA-Tech Advanced Airlaid Systems GmbH is an engineering services company specializing in air-laid production and packaging processes.

- We provide new, innovative packaging and delivery system technology.
- We completed the development of new packaging equipment enabling us to exceed capacity targets by more than 30%.
- In the future, AA-Tech will also focus on improving Concert's air-laid technology performance.



Production Capacity continues to Grow

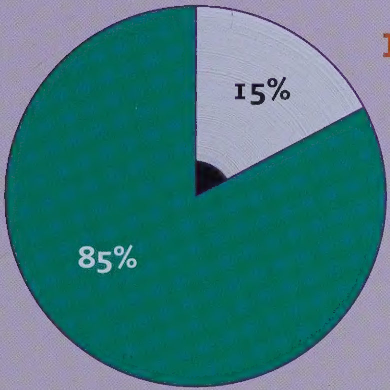
Thanks to an experienced and knowledgeable sales team, we continue to secure long-term supply contracts with world leaders in personal care products. These contracts require the customer to purchase minimum quantities at prices adjusted to market and raw material fluctuations. Close cooperation with our customers' research and development teams provides us an active involvement in product development. Therefore, last year we built a second line in Germany more than doubling annual capacity to 35,000 tonnes. We are also building a new plant in Gatineau increasing our total annual capacity to 73,000 tonnes. These expansions will make Concert one of the world's largest air-laid producers.

High quality air-laid fabrics offered at economical prices are our competitive edge. We are the only air-laid manufacturer utilizing both the DanWeb thermal and the latest M&J hybrid bonding technology providing a unique technical advantage.

Product Mix Comparison

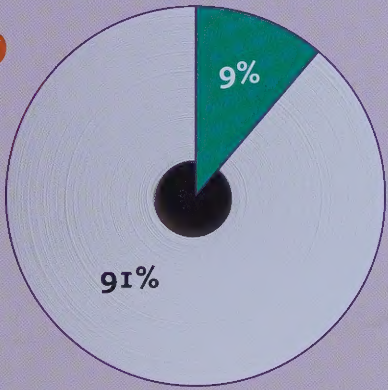
Most air-laid manufactuers are currently producing conventional latex bonded air-laid fabrics. In contrast, 85% of our air-laid is either thermal, multi or hydrogen bonded. In general, thermal and multi bonded fabrics offer superior absorbency and softness compared to latex bonded fabrics. They are suitable for use in redesigned and newly developed personal hygiene products, that require ultra-thin, fast wicking absorbent cores. Hydrogen bonding is a new air-laid process. Unlike other processes, hydrogen bonding excludes oven drying. As oven drying is a time consuming portion of the manufacturing process, the capacity of a production line is much higher, when used to produce hydrogen bonded fabrics.

CONCERT INDUSTRIES



1999

AIR-LAID INDUSTRY*



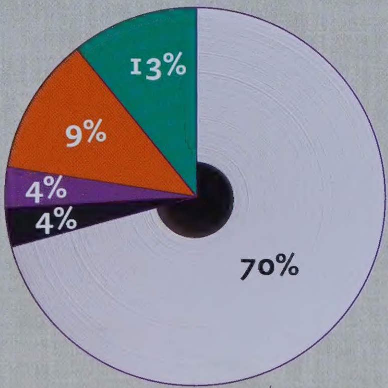
LATEX BONDED AND OTHER
$3,000 ~ $4,000/TONNE

THERMAL, MULTI AND HYDROGEN BONDED
$3,000 ~ $6,000/TONNE

*management estimate

Revenue Breakdown by Concert's End Market

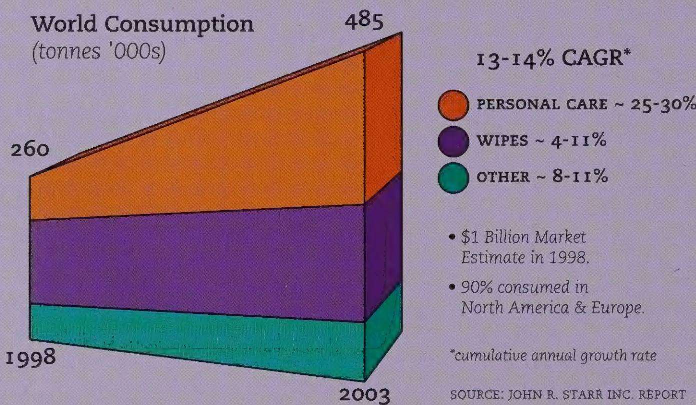
Most of our products are used in the personal care market mainly for feminine pads and panty liners. The adoption of air-laid products for baby diapers will significantly affect air-laid market growth. Annually, 2 million tonnes of fluff pulp are used world wide to produce diapers. This represents more than 55% of the global hygiene market. Air-laid fabrics are not widely used in diapers, however new hydrogen bonded air-laid products can provide thinner cores. This would simplify the diaper manufacturing process by reducing the amount of material used.



FEMININE HYGIENE
OTHER
~ *food pads, home care, printing pads*
TABLE TOP
WIPES
INCONTINENCE

Market Segments are Growing

Future market growth is not limited to diapers. While all market segments are growing, the fastest growth is expected in the personal care market. The global growth rate for air-laid in feminine pads is estimated to exceed 10% over the next several years. Ultra-thin feminine pad designs will continue to replace conventional thicker pads. Excluding potential baby diaper penetration, air-laid industry growth is expected to exceed 10% per annum. New markets for absorbent food packaging (meat, poultry and fish pads), home dry cleaning, absorbent disposable mops and medical wound care offer new emerging growth potential.



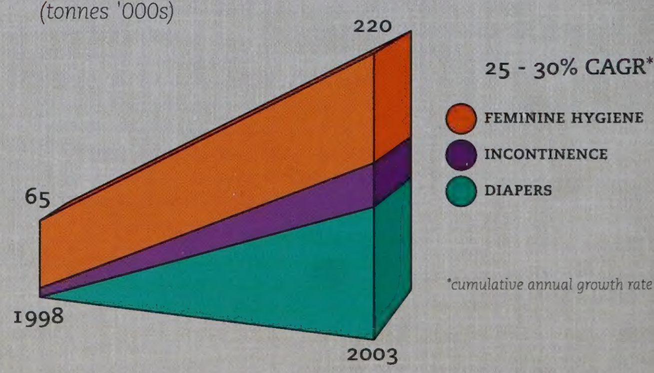
- $1 Billion Market Estimate in 1998.
- 90% consumed in North America & Europe.

*cumulative annual growth rate

SOURCE: JOHN R. STARR INC. REPORT

Emerging Markets Significantly Exceed Global Average Growth

Emerging marketplaces such as China and South America are forecasted to significantly exceed the global average growth for personal hygiene products. Companies like Procter & Gamble, Kimberly-Clark, Johnson & Johnson and SCA Hygiene are entering these regions with modern designs. Similarly, air-laid demand growth in adult incontinence products is estimated to exceed 25%. Furthermore, the air-laid market is generally not impacted by cyclical economic conditions.



*cumulative annual growth rate

- Targeting >60% penetration of feminine hygiene market by 2003.
- 5% diaper market penetration projected by 2003.

SOURCE: JOHN R. STARR INC. REPORT

Overview

Our growth in sales and earnings in 1999 is reflective of our continuing investment in technology driven capacity expansion. Our focused sales and marketing efforts, combined with a rapidly expanding market for air-laid products, provided strong growth in 1999 and continues to provide exceptional opportunities for the future.

Building on the strength of long-term supply contracts, we have established broad market support for our innovative products. For the year ended December 31, 1999, consolidated net income was $5.4 million ($0.55 basic earnings per share, $0.30 fully diluted earnings per share), up from $1.5 million ($0.18 basic earnings per share, $0.15 fully diluted earnings per share) for the year ended December 31, 1998. Consolidated sales and gross profit for 1999 were $47.7 million and $15.9 million respectively, compared with $12.7 million in sales and $4.6 million in gross profit for 1998. Consolidated cash flow from operations, before changes in non-cash working capital, generated $7.8 million for the year ended December 31, 1999, up from $2.3 million for 1998. Earnings before interest, taxes, depreciation and amortization ("EBITDA") were $9.5 million ($1.01 EBITDA per share, $0.54 fully diluted EBITDA per share), for the year ended December 31, 1999, up from $2.3 million ($0.29 EBITDA per share, $0.24 fully diluted EBITDA per share), in 1998.

In 1999, we solidified our position as one of Europe's premier suppliers of advanced pulp based air-laid composite materials. We completed the expansion of our production facility in Falkenhagen, Germany with the start-up of a second production line, resulting in an increase in production capacity of 180%, to 28,000 metric tonnes per annum. This $61.0 million project was completed within budget and on time. On the strength of its experienced operating staff and increasing demand for our products, the second line had a very successful startup.

Our growing success has lead to a further capacity expansion with the construction of a new North American production facility in Gatineau, Québec. This new facility will include the construction of a custom designed 270,000 square foot building which will house two, 2.7 meter wide air-laid lines based on the two world leading air-laid technologies. It is budgeted to cost $127.5 million and will commence commercial production in the second quarter of 2001. Completion of this project will more than double our production capacity to a total of 73,000 metric tonnes annually.

These achievements, have to no small extent, been accelerated by the strength of our employees. As at December 31, 1999, we increased the number of employees to 172 from 100 as at December 31, 1998.

Operating Performance

Sales for the year ended December 31, 1999 were $47.7 million, an increase of 275% from 1998 sales of $12.7 million. The increase in sales was attributed primarily to the capacity expansion at our facility in Falkenhagen, Germany and increased utilization of Thurso, Québec's existing capacity. Strong market demand for our uniquely designed products lead to the higher utilization of production capacity.

Gross margin for the year ended December 31, 1999 increased 245% to $15.9 million from $4.6 million in 1998. Gross margin percentage decreased from 36.5% in 1998 to 33.3% for the year ended December 31, 1999. The decrease in gross margin percentage was due to the costs associated with starting up the first air-laid line in Falkenhagen, Germany. Gross margin percentage at our operating facility in Thurso, Quebec remained consistent with the prior year's result.

Net income was $5.4 million for the year ended December 31, 1999, compared to net income of $1.5 million for 1998. A substantial portion of this increase is attributable to improvements in the North American operations and a marginal contribution from European startup operations. North American results improved primarily due to higher utilization of manufacturing capacity and efficiency.

Operating Performance (continued)

Our administrative expenses for the year ended December 31, 1999, excluding interest and depreciation, were $6.7 million, an increase from $2.0 million incurred in 1998. The majority of this increase resulted from the addition of the European operations, which were excluding in 1998 during the facility's start-up period. North American operations experienced modest increases in administrative expenses which resulted from higher operating levels. Depreciation and amortization increased to $2,517,640 for the year ended December 31, 1999 from $430,391 for 1998. As we use a units of production method for estimating our depreciation expense, the increase in costs were the direct result of higher production levels. The advent of the amortization expense relates to the costs deferred during start-up of the first European air-laid production line finalized during 1998. Interest expense increased to $1.5 million for the year ended December 31, 1999 from $453,624 in 1998. The entire amount of this increase relates to the initial consolidation of Concert's European operations.

CAPITAL REQUIREMENT, RESOURCES AND LIQUIDITY

Operations

Cash flow from operations, before changes in non-cash working capital, was $7.8 million for the year ended December 31, 1999 compared to cash flow of $2.3 million in 1998. This increase resulted from improved earnings with significantly higher amortization and depreciation expenses. Changes in non-cash working capital provided cash of $914,387 compared to a usage of cash in 1998 of $3.5 million. Although the increased operational levels used more working capital in expanding accounts receivable and inventory levels, Concert's capital activity resulted in substantially higher accounts payable levels at the end of the year.

Investing

For the year ended December 31, 1999, Concert invested a total of $44.2 million which was offset by the receipt of $12.2 million of non-repayable government grants. Substantially, all of these expenditures related to our expansion in Falkenhagen, Germany. Concert's second European air-laid production line was completed at the end of 1999 - within its prescribed budget of $61.0 million. The expansion included the installation of a 2.7 meter wide air-laid line capable of producing thermal, multi-bond and hydrogen bonded products, within a newly constructed 120,000 square foot building.

Financing

During 1999, Concert's German subsidiary, Concert GmbH, drew down loans facilities provided by our German bankers in the amount of $15.7 million to partially finance its expansion project. Concert GmbH also began repayment of its existing long term debt of $2.2. million. Within Concert's North American operations long-term debt was reduced by $2.4 million during 1999.

In the fourth quarter of 1999, Concert completed a public placement of its common shares resulting in the cumulative issuance for the year of 4.8 million common shares for net proceeds of $20.4 million. These funds are primarily allocated to the expansion of our North American operations

Liquidity and Financial Position

As at December 31, 1999 the Company was in a strong cash and working capital position, primarily due to its recent equity financing. Concert's cash position increased to $16.0 million in 1999 from $4.6 in 1998, and net working capital increased from $2.4 million in 1998 to $6.5 million in 1999. Concert's debt to equity position also improved from a ratio of 1.64 in 1998 to 1.12 in 1999. Again, these improvements were primarily due to the equity financing completed during 1999.

Future Considerations

Concert is committed to the construction of the new facility in Gatineau, Québec which will significantly expand North American manufacturing capacity. Funding for this project has been secured from the following sources: a Canadian Chartered Bank, as to $65 million in term loans; Investissement Québec, as to $20 million in subordinated debt which will be interest free for eight years; equity investment form the proceeds of the recently completed equity financing in the amount of $20.3 million; and SGF Rexfor Inc., as to $25.2 million of which $10 million will be an interest bearing debenture, and $15.2 million will be a minority equity investment in a new subsidiary which will own one of the production lines and the building.

Market Risk Sensitivity and Inflation Risk

As a multinational company, Concert is exposed to fluctuations in foreign currency exchange rates, interest rates and commodity prices. Concert employs a variety of tools to manage these market risks.

Foreign currency risk is managed by the use of foreign currency swap contracts. The use of these contracts allows us to manage our exposure to exchange rate changes because the gains or losses incurred on the contracts will be offset in whole, or in part, by losses or gains on the underlying foreign currency exposure.

Interest rate risk is managed by maintaining a balance between long and short term rate exposure, which provides the best effective cost for the level of exposure management deems appropriate. Concert continues to maintain its flexibility in managing these interest rate risks.

Concert's inflation risk is managed through selective price increases, supply contracts, productivity increases and cost management programs. We believe that inflation does not pose a material risk to Concert.

Concert is subject to commodity price risks relating to price changes in the cost of raw materials. For all sales under contract, the selling price for our products is automatically adjusted for any fluctuation in the cost of raw materials. Concert has been successful in adjusting its prices to reflect actual changes in the price of raw materials. However, future market conditions may limit our ability to forecast fluctuations in the price of raw materials.

Outlook

We enjoyed a very successful year in 1999, with significant increases in sales, net income and cash flow. Annual production capacity will increase from 17,000 metric tonnes in 1999 to 35,000 metric tonnes in 2000 with the commissioning of our second air-laid line located at Falkenhagen, Germany. Concert expects the strong demand for its products in Europe will facilitate a rapid utilization of this new capacity.

Building on our success in Europe, we have announced a major expansion to our North American capacity that will increase world wide capacity to 73,000 metric tonnes annually. Although market conditions may change, we anticipate a successful start-up of our new facility in Gatineau, Québec in the second quarter of 2001.

FORWARD LOOKING STATEMENTS - The matters discussed in this annual report, with exception of historical information, contain forward looking statements that involve risks and uncertainties including, but not limited to, economic, competitive, governmental and technological factors affecting Concert's operations, products, prices and other factors. Actual results could differ materially from those projected or suggested in any forward looking statements as a result of a variety of factors and conditions. The following factors could cause actual results to differ materially from historical results or those anticipated: adverse economic conditions, competition in Concert's markets, fluctuations in raw material costs, and other risks.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

Management, in accordance with generally accepted accounting principles, has prepared the consolidated financial statements contained in this annual report. The integrity and objectivity of the data in these consolidated financial statements are management's responsibility. Management is also responsible for all other information in the annual report and for ensuring that this information is consistent, where appropriate, with the information and data contained in the consolidated financial statements.

In support of its responsibility, management maintains a system of internal controls to provide reasonable assurance as to the reliability of financial information and the safeguarding of assets. Some of the assets and liabilities include amounts which are based on estimates and judgements, as their final determination is dependent on future events.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control and exercises this responsibility through the Audit Committee. The Audit Committee is comprised of non-management Directors. The functions of the committee are to review the system of internal controls; review any relevant accounting, financial and security regulatory matters; and recommend the appointment of external auditors. The Audit Committee meets on a regular basis with management and the auditors of the Company to satisfy itself that their responsibilities have been properly discharged.

The external auditors, KPMG, conduct an independent examination, in accordance with generally accepted auditing standards, and express their opinion on the financial statements. Their examination includes a review and evaluation of the Company's system of internal controls and appropriate tests and procedures to provide reasonable assurance that the consolidated financial statements are presented fairly and in accordance with generally accepted accounting principles in Canada. The external auditors have access to management and the Audit Committee with respect to their findings concerning the fairness of financial reporting and the adequacy of internal controls.

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Concert Industries Ltd. as at December 31, 1999 and 1998 and the consolidated statements of income and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1999 and 1998 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants
Vancouver, Canada
March 10, 2000

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 1999 AND 1998

	1999	1998
Assets		
Current assets:		
Cash and cash equivalents	**$ 15,961,299**	$ 4,569,528
Accounts receivable	**6,597,177**	5,325,662
Inventories	**5,180,282**	2,482,616
Prepaids and deposits	**257,495**	176,251
	27,996,253	12,554,057
Investment	**111,405**	133,500
Capital assets *(note 2)*	**65,968,074**	41,262,531
Deferred start-up costs, net of amortization of $780,928 (1998 - $nil)	**2,776,239**	4,001,290
	$ 96,851,971	$ 57,951,378
Liabilities and Shareholders' Equity		
Current liabilities:		
Demand loans *(note 3)*	**$ 1,100,224**	$ 525,000
Accounts payable and accrued liabilities	**10,120,436**	3,800,309
Shareholder loan *(note 11)*	**5,173,791**	3,059,024
Current portion of long-term debt *(note 4)*	**5,541,524**	2,779,011
	21,935,975	10,163,344
Long-term debt *(note 4)*	**23,141,046**	17,804,084
Deferred income taxes	**100,000**	—
Non-controlling interest	**6,398,924**	8,010,000
	51,575,945	35,977,428
Shareholders' equity:		
Convertible debenture *(note 5)*	**13,568,367**	13,335,458
Share capital *(note 6)*	**40,254,108**	19,809,459
Deficit	**(5,807,269)**	(10,926,186)
Cumulative translation adjustment	**(2,739,180)**	(244,781)
	45,276,026	21,973,950
Commitments and contingencies *(notes 8)*		
Subsequent events *(notes 8(b) and 12)*		
	$ 96,851,971	$ 57,951,378

See accompanying notes to consolidated financial statements.

On behalf of the Board:

Dieter Peter, Director

Bayne Boyes, Director

CONSOLIDATED STATEMENTS OF INCOME & DEFICIT

YEARS ENDED DECEMBER 31, 1999 AND 1998

	1999	1998
Sales	**$ 47,658,440**	$ 12,672,452
Cost of sales	**31,777,771**	8,053,388
Gross margin	**15,880,669**	4,619,064
Expenses:		
Administration expenses	**2,577,094**	1,213,729
Amortization	**780,928**	—
Depreciation	**1,736,712**	430,391
Fixed manufacturing, product development and overhead	**2,637,879**	539,548
Interest	**1,510,242**	453,624
Selling and marketing	**1,638,746**	410,583
	10,881,601	3,047,875
Income before undernoted items, income taxes and non-controlling interest	**4,999,068**	1,571,189
Write down of investment	—	(314,465)
Foreign currency exchange gain	**178,084**	204,500
Income before income taxes and non-controlling interest	**5,177,152**	1,461,224
Income taxes:		
Current	—	—
Deferred	**100,000**	—
	100,000	—
Income before non-controlling interest	**5,077,152**	1,461,224
Non-controlling interest	**311,118**	—
Net income	**5,388,270**	1,461,224
Deficit, beginning of year	**(10,926,186)**	(12,387,410)
Amortization of convertible debenture issue costs	**(232,908)**	—
Net value assigned to shares issued on exercise of stock appreciation rights	**(36,445)**	—
Deficit, end of year	**$ (5,807,269)**	$ (10,926,186)
Income per share	**$ 0.55**	$ 0.18
Fully diluted income per share	**0.30**	0.15
Weighted average number of shares outstanding	**9,392,793**	8,137,140

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 1999 AND 1998

	1999	1998
Cash provided by (used in):		
Operating activities:		
Net income	**$ 5,388,270**	$ 1,461,224
Adjustment for non-cash items:		
Amortization	**780,928**	—
Depreciation	**1,736,712**	430,391
Non-controlling interest	**(311,118)**	—
Stock-based compensation	**77,857**	64,520
Write-down of investment	—	314,465
Deferred income taxes	**100,000**	—
	7,772,649	2,270,600
Changes in non-cash working capital:		
Increase in accounts receivable	**(2,798,757)**	(3,145,687)
Increase in inventories	**(3,253,367)**	(1,923,135)
Increase in prepaids and deposits	**(101,795)**	(69,316)
Increase in accounts payable and accrued liabilities	**7,068,306**	1,621,235
	8,687,036	(1,246,303)
Investing activities:		
Capital assets	**(46,111,175)**	(19,844,669)
Federal government grant	**12,216,213**	13,440,908
Deferred start-up costs	**(44,880)**	(3,835,711)
Purchase of investment	—	(133,500)
	(33,939,842)	(10,372,972)
Financing activities:		
Increase in demand loans	**634,320**	325,000
Repayment of long-term debt	**(4,700,530)**	(2,695,549)
Increase in long-term debt	**17,991,954**	748,403
Repayment of convertible debenture	—	(4,497,000)
Issue of convertible debentures	—	13,335,458
Issue of share capital	**20,330,347**	2,337,920
Increase in non-controlling interest	—	4,130,649
Increase in shareholder loan	**2,960,754**	3,197,116
Repayment of shareholder loan	**(85,073)**	(550,000)
	37,131,772	16,331,997
Foreign exchange loss arising on translation of cash balances from subsidiary	**(487,195)**	(377,848)
Increase in cash and cash equivalents	**11,391,771**	4,334,874
Cash and cash equivalents, beginning of year	**4,569,528**	234,654
Cash and cash equivalents, end of year *(note1(b))*	**$ 15,961,299**	$ 4,569,528
Supplementary information:		
Interest paid	**$ 1,821,428**	$ 1,705,933
Non-cash transactions:		
Stock-based compensation for shares issued pursuant to employee share purchase plan	**77,857**	64,520
Issue of shares on exercise of share appreciation rights	**36,445**	—

See accompanying notes to consolidated financial statements.

The Company is incorporated under the Canadian Business Corporations Act and its principle business activity is the manufacture and sale of thermal, latex and multi-bonded air-laid products

1.Significant accounting policies:

(a) Consolidation:

The consolidated financial statements include the accounts of the Company and its subsidiaries, Concert Fabrication Ltée. (100% owned), Concert GmbH (55% owned), AA-Tech Systems Advanced Airlaid-Technology GmbH (100% owned) and Concert Financial Services Ltd. (100% owned). All material intercompany balances and transactions have been eliminated.

(b) Cash and cash equivalents:

Cash equivalents includes short-term deposits with terms to maturity of ninety days or less when acquired.

(c) Inventories:

Raw materials are valued at the lower of cost and replacement cost. Finished goods are valued at the lower of cost and net realizable value. Cost is determined using the first-in first-out method.

(d) Capital assets:

Capital assets are recorded at cost including incremental interest, allocable overhead and other costs incurred by the Company related to the construction phase, net of related government grants.

The Company provides for depreciation as follows:

Asset	Term
Air-laid plant and equipment	Unit of Production method
Leasehold improvements	Straight-line over lease term
Furniture and computer equipment	4-10 years straight-line
Building	4% declining balance

(e) Deferred start-up costs:

Costs associated with the start-up of new air-laid plants include product line testing and pre-operating period expenditures (net of incidental revenues) and are deferred until the plant commences commercial operations. Attainment of commercial operations is defined as the earlier of the plant having the ability to produce product as contemplated in the plant specifications and one year from the completion of the Air-laid plants. Deferred start-up costs are amortized over a five year period.

(f) Government grants:

Government grants received by the Company (note 2) are applied to reduce the capital cost of the Company's Air-laid plants in the period the grant is received.

(g) Deferred income taxes:

The Company follows the deferral method of income tax allocation. Deferred income taxes arise from timing differences in the recognition of income and expenses for accounting and income tax purposes.

(h) Foreign currency translation:

The financial statements of the Company's self-sustaining German subsidiary Concert GmbH have been translated using the current rate method where by assets and liabilities are translated at the exchange rate in effect on the balance sheet date and revenue and expense items are translated at the average rate of exchange prevailing during the year. Gains and losses on translation are deferred and included as the cumulative translation adjustment in shareholders' equity.

The Company enters into transactions denominated in foreign currencies that have been translated into Canadian dollars as follows:

(i) Monetary assets and liabilities at year-end rates;

(ii) All other assets and liabilities at rates in effect on the transaction dates; and

(iii) Revenue and expense items at the average rate of exchange prevailing during the year.

Exchange gains and losses arising from these transactions are reflected in results from operations.

1. Significant accounting policies (continued):

(i) Use of estimates:

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that effect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates. Areas requiring significant estimates include provision for sales returns and economic useful lives of capital assets for depreciation purposes.

(j) Stock-based compensation:

The Company has a stock option plan, which is described in note 6(d). No compensation expense is recognized for this plan when stock options are issued to employees as the exercise prices are equal to market value of the underlying common shares on the date of grant. Any consideration paid by employees on exercise of stock options or purchase of stock is credited to share capital.

The Company has an employee stock purchase plan, which is described in note 6(e). The Company matches the employee's contribution and recognizes this cost as an expense in the period it is incurred.

(k) Comparative figures:

Certain comparative figures have been reclassified to conform to financial statement presentation adopted during the current period.

2. Capital assets:

December 31, 1999	Cost	Accumulated depreciation	Net book value
Air-laid plant and equipment	$ 42,372,918	$ 3,614,514	$ 38,758,404
Building and improvements	9,957,038	1,292,095	8,664,943
Furniture and equipment	1,621,243	701,687	919,556
Land	719,107	—	719,107
Plant under construction	55,837,854	—	55,837,854
	110,508,160	5,608,296	104,899,864
Less government grants *(note 8(c))*	40,355,370	1,423,580	38,931,790
	$ 70,152,790	$ 4,184,716	$ 65,968,074

December 31, 1998	Cost	Accumulated depreciation	Net book value
Air-laid plant and equipment	$ 45,983,492	$ 2,044,454	$ 43,939,038
Building and improvements	11,598,001	525,224	11,072,777
Furniture and equipment	1,332,531	292,152	1,040,379
Land	824,117	—	824,117
Plant under construction	16,402,415	—	16,402,415
	76,140,556	2,861,830	73,278,726
Less government grants *(note 8(c))*	32,443,695	427,500	32,016,195
	$ 43,696,861	$ 2,434,330	$ 41,262,531

3. Demand loan:

A bank demand loan totalling $450,000 at December 31, 1999 bears interest at bank prime plus 1/4% and is secured by accounts receivable and inventory of Concert Fabrication Ltée.

The Company had drawings under outstanding lines of credit totalling $650,224 (DM 875,487) at December 31, 1999. These lines of credit bear interest at 6% and are secured by the assets of Concert GmbH.

4. Long-term debt:

	1999	1998
German bank loans denominated in German Deutschmarks (DM 21,192,000) due at various dates in 2004 and bearing interest at annually re-negotiated rates (presently ranging from 4.00% to 4.13%) and annual principal repayments of $4,375,988 commencing March 31, 2000, secured by a first charge on assets of Concert GmbH	$ 15,739,297	$ —
German bank loans denominated in German Deutschmarks (DM 10,000,000) due June 30, 2003 and bearing interest at annually re-negotiated rates (presently ranging from 4.3% to 4.64%) and annual principal repayments of $2,228,100, secured by a first charge on assets of Concert GmbH	7,427,000	11,570,000
Government of Germany Loan denominated in German Deutschmarks (DM 5,000,000), repayable in annual payments of DM 500,000 over a 10 year period commencing in 2006 if German operations achieve profitability or a cumulative operating surplus and bearing interest at 6.6% per annum	3,713,500	4,450,000
German bank loans denominated in German Deutschmarks (DM 2,385,000) with no specific terms of repayment and bearing interest at annually re-negotiated rates (presently at 4.08%), secured by a first charge on assets of Concert GmbH	1,771,340	2,161,533
G.E. Capital - term loan repayable in 60 equal monthly payments of $6,463 including interest at 10.6% per annum, secured by a first charge on specific equipment	31,433	101,562
National Bank of Canada, revolving loan of $6,500,000 with interest payable monthly at prime plus 0.75% per annum. The loan is secured by a first rank hypothec of $9,000,000 on all present and future moveable and immovable Canadian assets. The approved limit will reduce as follows: $6,500,000 until April 30, 2000; $6,000,000 from May 1, 2000 to April 30, 2001, $5,000,000 from May 1, 2001 to April 30, 2002, $4,000,000 from May 1, 2002 to April 30, 2003; $3,000,000 from May 1, 2003 to April 30, 2004; $2,000,000 from May 1, 2004 to April 30, 2005; $1,000,000 from May1, 2005 to April 30, 2006	—	900,000
Societé de Development Industriel du Quebéc ("SDI") (Provincial Government Venture Loan) - with interest payable monthly at floating rates (8.25% at December 31, 1998)	—	1,400,000
	28,682,570	20,583,095
Less current portion	5,541,524	2,779,011
	$ 23,141,046	$ 17,804,084

Scheduled principal repayments on long-term debt for each of the next five fiscal years are as follows:

2000	$ 5,541,524
2001	6,604,100
2002	6,604,100
2003	4,448,030
2004	1,771,340

During the year ended December 31, 1999, interest totalling $387,910 (1998 - $2,084,918) relating to the construction of new air-laid plants was capitalized.

5. Convertible debenture:

During 1998, the Company issued three new convertible debentures for proceeds of $13,335,458, being the principal amount of $14,500,000 less issue costs of $1,164,542. The convertible debentures are non-interest bearing, unsecured and are convertible into approximately 6,304,300 common shares at a conversion price of $2.30 per share, such conversion to be completed no later than September 30, 2003. The Company may force conversion at the end of each calendar quarter commencing September 30, 1999, provided the Company's common shares have traded for 10 consecutive trading days immediately preceding the conversion at a price higher than the conversion price and the Company has been profitable in at least the two previous calendar quarters. The number of common shares to be issued on each quarterly conversion at the option of the Company cannot exceed the lesser of 15% of the common shares outstanding on the conversion date and 25% of the common shares traded on any recognized exchange on which the common shares of the Company may be listed and traded in the previous calendar quarter.

The principal amount under the debentures are due on September 30, 2003, if not previously converted, and may be paid in cash or at the Company's option with shares, such shares to be valued at the then prevailing market price. Since the Company has the ability to settle the principal amount of the debentures by issuing shares, the debentures have been classified as a component of shareholders' equity.

The carrying amount of the debentures is being accreted to the principal amount of the debenture over the period to maturity. During 1999, the Company recorded $232,908 (1998 - $nil) as a charge against deficit relating to the accretion of the debentures.

6. Share capital:

(a) Authorized:

Unlimited common shares without par value
Unlimited preferred non-voting shares without par value

(b) Issued:

	Number of shares	Amount
Balance, December 31, 1997	7,981,338	$ 17,407,019
Issued on:		
Employee share purchase plan	59,129	129,040
Exercise of warrants	128,700	287,400
Private placement	889,567	1,986,000
Balance, December 31, 1998	9,058,734	19,809,459
Issued on:		
Employee share purchase plan	46,570	155,715
Exercise of options	227,457	491,365
Exercise of share appreciation rights	18,100	36,445
Exercise of warrants	108,695	250,000
Public issue of stock, net of issue cost of $1,489,101	4,421,100	19,511,124
Balance, December 31, 1999	13,880,656	$ 40,254,108

(c) Escrow shares:

Of the issued common shares, 562,500 are performance shares held in escrow to be released based on one share for each cumulative $0.40 of pre-tax cash flow. Release from escrow is subject to regulatory approval.

6. Share capital (continued):

(d) Stock option plan:

Under the terms of the stock option plan, stock options vest at a rate of one half on the first anniversary of the grant and the remaining one half on the second anniversary of the grant. The maximum term of the options granted under the plan is five years and the maximum number of common shares authorized for issue on exercise of stock options is 2,000,000 common shares.

All of the stock options carry stock appreciation rights whereby the optionee can elect to receive an amount equal to the excess of the market value of the common shares on the date of exercise over the exercise price of the stock option, in lieu of exercising the stock option to acquire the common shares.

The Company has the option to pay this amount in cash or by issuing common shares of the Company.

	Number of of stock options	Weighted average exercise price
Outstanding, December 31, 1997	505,375	$ 2.11
Granted	1,051,000	2.21
Cancelled	(71,250)	2.77
Outstanding, December 31, 1998	1,485,125	2.16
Granted	275,000	4.16
Exercised	(227,457)	2.16
Expired	(61,293)	2.17
Outstanding, December 31, 1999	1,471,375	$ 2.49

	Stock Options Outstanding December 31, 1999			Stock Options Exercisable December 31, 1999	
Range of exercise prices	Number of stock options outstanding	Weighted average remaining contractual life	Weighted average exercise price	Number of stock options exercisable	Weighted average exercise price
$1.90 to 2.40	1,216,750	1.7	$ 2.15	701,063	$ 2.12
$3.00 to 3.35	154,625	2.1	3.12	9,813	3.00
$5.53	100,000	4.7	5.53	—	—
$1.90 to $5.53	1,471,375	2.0	$ 2.49	710,875	$ 2.14

(e) Employee share purchase plan:

Under the terms of the employee share purchase plan, all employees are eligible to participate in the plan upon completion of 18 months of employment with the Company. Employees can contribute up to 10% of their annual earnings with the Company matching all contributions made by the employee. The contributions are used to purchase common shares of the Company either on the open market or from treasury.

7. Income taxes:

	1999	1998
Combined Canadian federal and provincial rate	45.62%	45.62%
Expected income tax expense	$ 2,361,817	$ 666,610
Tax effect of:		
Loss (income) from Canadian subsidiary taxed at lower rates	(727,711)	(240,305)
Loss (income) from foreign subsidiary taxed at lower rates	52,683	—
Losses utilized	(1,586,789)	(426,305)
	(2,261,817)	(666,610)
Annual income tax expense	$ 100,000	$ —

7. Income tax (continued):

The Company and its Canadian subsidiaries have non-capital loss carry forwards of approximately $5,058,000 which can be used to offset future Canadian taxable income to 2006. The benefit of approximately $2,100,000 of these losses has been recognized by the Company to reduce the deferred tax liability. The Company's subsidiary, Concert GmbH, has non-capital losses of approximately $7,129,900 which can be used indefinitely to offset future taxable income in Germany. None of the German losses have been recognized.

8. Commitments and contingencies:

(a) The Company has committed to the following operating lease payments for premises:

2000	$ 502,331
2001	482,120
2002	429,092
2003	402,693
2004	94,800
	$ 1,911,036

(b) Concert GmbH has entered into contracts relating to a second plant under construction. Total committed expenditures at December 31, 1999 amount to approximately $6,960,000. AA - Tech Systems Advanced Airlaid-Technology GmbH has entered into contracts relating to the development and manufacturing of certain plant equipment and has total committed expenditures of approximately $1,320,000 as at December 31, 1999. In addition, the Company has commenced two new Air-laid plant construction projects for total budgeted costs of approximately $127,000,000. These projects will be funded through debt financing of approximately $77,500,000, equity financing of $15,200,000 and the remainder being funded by current working capital. The Company is currently finalizing the financing arrangements.

(c) Government grants totalling $11,883,200, have conditions attached to the grant requiring that the Company reach specified employment levels and continue to run the grant aided plant for at least five years after completion of the plant. If the conditions are not met, the grants are repayable. As at December 31, 1999, the employment levels have not yet been reached. As management considers that it is reasonably assured that the required employment levels will be met, the grants have been recorded as a reduction of capital assets (note 2).

(d) The Company has received notice of a claim for an unspecified amount relating to an employment matter. The Company believes that the claim is without merit. The outcome of the claim is not determinable at December 31, 1999.

9. Financial instruments:

(a) Risk management activities:

The Company operates in North America and Europe, giving rise to exposure to market risks from changes in foreign exchange rates. The Company limits exposure to foreign currency fluctuations in most of its production contracts through provisions that require customer payment in currencies corresponding to the currency in which costs are incurred. In order to limit any additional foreign exchange risks, principally relating to contracts involving US Dollars, the Company has entered into a swap transaction, whereby, if the average spot price for the US Dollar is lower than a strike price of $1.44 Canadian, the counterparty will pay the Company the difference between $1.44 and the average spot price on a notional principal of $13,258,800 Canadian and, if the average spot price is higher than a strike price of $1.4815 Canadian, the Company will pay the counterparty the difference between the strike price and the average spot price on a notional principal of $13,258,800 Canadian.

9. Financial instruments (continued):

(b) Concentrations of credit risk:

Accounts receivable from two customers represent approximately 55% of total accounts receivable at December 31, 1999. The Company employs standard credit check procedures to mitigate credit risk relating to accounts receivable. Geographic regions representing in excess of 10% of trade accounts receivable are as follows:

	1999	1998
North America	$ 889,728	$ 2,539,529
Europe	3,375,630	2,305,584
Asia	752,266	—

(c) Fair value:

The estimated fair value of cash and cash equivalents, accounts receivable, demand loans, and accounts payable and accrued liabilities is not believed to be materially different than their carrying values due to their short terms to maturity or their ability for prompt liquidation.

The fair value of the Government of Germany loan of $3,713,500 is not readily determinable with sufficient reliability due to the uncertainty of future repayments and the lack of similar instruments in the market. The fair value of all other long-term debt approximates the carrying value based on discounted future cash flows and market rates of interest for the same or similar instruments.

The fair value of the shareholder loans is not determinable with sufficient reliability due to the relationship between the shareholders and the Company and the lack of a ready market for related party indebtedness. Details of the loans are described in note 11.

The fair value of the foreign currency swap contract described in note 9(a) is not materially different from its carrying value based on the exchange rates on December 31, 1999.

10. Segmented information:

The Company operates as two reportable segments. Management defines these segments by the domicile of the subsidiaries and where they primarily derive their revenue.

(a) Reportable segments:

Segmented information for the years ended December 31, 1999 and 1998 are as follows:

December 31, 1999	Canada	Europe	Total
Sales	$ 24,084,538	$ 23,573,902	$ 47,658,440
Depreciation and amortization	1,015,928	1,501,712	2,517,640
Interest expense	180,580	1,329,552	1,510,242
Net income (loss)	5,768,525	(380,255)	5,388,270
Capital expenditures	7,499,547	38,611,628	46,111,175
Total assets	34,618,443	62,233,528	96,851,971

December 31, 1998	Canada	Europe	Total
Sales	$ 12,672,452	$ —	$ 12,672,452
Depreciation and amortization	430,391	—	430,391
Interest expense	453,624	—	453,624
Net income (loss)	1,461,224	—	1,461,224
Capital expenditures	1,059,176	18,785,493	19,844,669
Total assets	13,119,676	44,831,702	57,951,378

(b) Major customers:

For the year ended December 31, 1999, three customers from the Canadian operations and two customers from the European operations represent approximately 58% of total revenues. For the year ended December 31, 1998, one customer from the Canadian operations represents 35% of total revenues

11. Related party transactions:

The Company paid $10,000 to a shareholder and officer of the Company during the year ended December 31, 1999 (1998 - $10,000) as consideration for a personal guarantee provided by the shareholder and officer required by the Government of Germany's banking policies for a loan to the Company's German subsidiary. The Company will be obligated to continue making annual payments of $10,000 until the personal guarantee is withdrawn.

As at December 31, 1999, the non-controlling shareholders of the Company's German subsidiary, Concert GmbH have advanced funds totalling $5,173,791 (1998 - $3,059,024) to Concert GmbH. These advances are unsecured, bear interest at 8% per annum and are due on December 31, 2000.

12. Subsequent events:

The Company issued 631,600 common shares at a price of $4.75 per share on the exercise of an over allotment option granted to the underwriters in connection with a public issue of common shares undertaken during 1999.

The Company issued 61,500 stock options to employees with an exercise price of $4.90 and 170,000 options with an exercise prices of $5.00. These options are exercisable for a period of three years.

1999

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INCORPORATION

Company Act of British Columbia
26 January 1984
Incorporation number: 273490

Canada Business Corporations
Act, Federal
17 March 1995
Incorporation number: 31287-0

Extra Provincial Registration
Company Act of British Columbia
23 September 1998
Ex-Pro. Number: A-48073

DIRECTORS

Dieter Peter
John McNicol
Carey Edwards
Richard C.H. Lin
Bayne Boyes
William Robinson
Louise Overbeek
Claude Perron
Melvyn Rowles*

**appointed pending final shareholder approval*

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William Robinson, *Chair*
Bayne Boyes
Louise Overbeek

COMPENSATION COMMITTEE

Bayne Boyes, *Chair*
Dieter Peter
William Robinson
Claude Perron

EXECUTIVE COMMITTEE

Dieter Peter
John McNicol
Carey Edwards
Ken Squires, *Concert Fabrication Ltée.*
Rolf Hövelmann, *Concert GmbH*

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Chairman and CEO

John McNicol
President and COO

Carey Edwards
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SHARE CAPITAL AUTHORIZED AND ISSUED AS AT 31 DECEMBER 1999

Authorized:
Unlimited common shares without par value
Unlimited preferred non-voting shares without par value

Issued & Outstanding: 13,880,656

At the heart of our company, lies the integrity, ingenuity and innovation of the people that represent Concert. **We are fortunate to be in a marketplace that offers many exciting**

opportunities.

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